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MULTIFAMILY ACCELERATED PROCESSING (MAP)
LENDER GUIDELINES FOR QUALITY CONTROL PLAN

I. BACKGROUND.

Until now HUD has not required its approved lenders to have a Quality Control Plan (QC Plan) dealing with multifamily development. However, it has been determined that as a condition of receiving or continuing to receive Multifamily Accelerated Processing (MAP) privileges, Lenders must have and maintain a QC Plan for underwriting and construction loan administration, if applicable, of insured mortgages processed under the MAP procedures. Each MAP Lender must develop and maintain an acceptable QC Plan using the guidelines below.

II. SUBMISSION OF QUALITY CONTROL PLANS.

- A. A QC Plan is now a required exhibit in the MAP application package, Exhibit N.
- B. A Lender with an application for MAP privileges currently in process must immediately amend the application by submitting Exhibit N.
- C. An existing MAP Lender must submit a QC Plan:
 - 1. By January 31, 2004.
 - 2. For review and approval to:

US Department of Housing and Urban Development
Office of Multifamily Development
Lender Qualifications and Monitoring Division
Attention: Kerry J. Mulholland
451 7th Street, SW, Room 6128
Washington, DC 20410
- D. Submit the QC Plan in both paper and electronic formats. The paper copy must be signed by an authorized signatory of the Lender. Furthermore, whenever the QC Plan is revised updated paper and electronic copies must be sent to LQMD for review and approval.
- E. ***A MAP Lender must develop its own QC Plan. QC Plans developed by contractors are not acceptable and will be rejected.***

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III. POLICY OBJECTIVES.

The primary objectives of the QC Plan are to assure:

- A. The MAP Lender operates at a sustained high performance level in the origination, underwriting, construction loan administration and closing of MAP processed multifamily insured projects.
- B. The MAP Lender maintains full compliance with the National Housing Act (NHA), HUD-FHA and MAP requirements and its own policies and procedures.
- C. The MAP Lender adheres to policies and procedures that are known and consistently followed by its personnel and that are supported internally by proper training and development activities.
- D. The MAP Lender's contractor(s) involved in a MAP project are familiar with, understand and adhere to the MAP Lender's policies and procedures regarding quality control.
- E. The MAP Lender's operating procedures are revised in a timely manner to:
 - 1. Accurately reflect any and all changes in HUD-FHA and MAP regulations, policies, directives or instructions;
 - 2. Keep all affected, accountable personnel including contractor(s) informed and trained so as to guarantee an immediate compliance thereto; and
 - 3. Assure that employees and contractor(s) are held accountable for performance failures, errors and omissions.
- F. The MAP Lender utilizes a program of internal or external audits that provides for an independent review by staff and/or contractor(s) who are knowledgeable and have no direct MAP loan origination, underwriting or construction loan administration responsibilities.

IV. GENERAL REQUIREMENTS OF A QUALITY CONTROL PLAN.

The QC Plan must clearly describe the requirements for the MAP loan origination, underwriting and construction loan administration, if applicable. The QC Plan must also state the actions the MAP Lender will take to assure acceptable

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management and comprehensive risk reduction in the lending process.

- A. Each office of the MAP Lender, including its branches if applicable, must maintain copies of the NHA and all HUD issuances, including Part 24 CFR regulations, HUD handbooks, Mortgagee Letters, HUD Notices, MAP Guide, MAP Forms Book, MAP Frequently Asked Questions (FAQs), etc. which are relevant to the MAP Lender's HUD-FHA MAP origination, underwriting and/or construction loan servicing activities.
- B. The documents in A. above must be:
 - 1. Accessible to all employees and contractor(s);
 - 2. Periodically reviewed with appropriate staff and contractor(s); and
 - 3. Kept current.
- C. The MAP Lender has procedures in place to:
 - 1. Distribute any electronic information received from HUD to the appropriate employees and contractor(s).
 - 2. Notify LQMD of any change in the MAP Lender's:
 - o Point-of-contact for the MAP procedures;
 - o Name;
 - o Address;
 - o Email address
 - o Telephone and/or FAX numbers
 - o Underwriter(s);
 - o Construction loan administrator(s), if applicable; and
 - o Authorized signatory(s).
 - 3. Provide annual certifications signed by an authorized signatory of the MAP Lender.
 - a. The annual certification must be submitted no later than June 30th.
 - b. The certification must:
 - 1) List the names of the lender's approved MAP underwriter(s), construction loan administrator(s), and authorized

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signatory(s) to bind the lender on MAP loan applications.

2) State that

a) All MAP underwriters have attended MAP Lender training.

b) The MAP Lender is currently a HUD approved multifamily mortgagee and that all branches for multifamily business have been identified and the required fee has been paid. No satellite are permitted.

3) Contain the following language:

WARNING: "HUD will prosecute false claims and statements. Convictions may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)."

c. Submit the certification to:

US Department of Housing and Urban
Development
Office of Multifamily Development
Lender Qualifications and Monitoring Division
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d. Failure to submit the certification on time is the basis for a sanction under Chapter 15 of the MAP Guide.

D. The MAP Lender maintains the latest Limited Denial of Participation list (LDP) available from HUD's Internet web site.

E. The MAP Lender continuously checks the latest Debarment list available from HUD's Internet web site.

F. The MAP Lender does not:

1. Conduct business with any person, as defined in 24 CFR 24.105, who is debarred, suspended or subject to a Limited Denial of Participation (LDP).

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2. Employ or contact with any individual or firm who is debarred, suspended or subject to a Limited Denial of Participation (LDP) or otherwise restricted from participation in HUD-FHA programs.
- G. The MAP Lender retains a copy of the entire case file pertaining to the MAP loan origination, underwriting and/or construction loan administration, either in hard copy or a generally accepted electronic storage format, for example microfilm or scanned and stored on CD Disk, for at least 10 years from the final endorsement date.
- H. The MAP Lender requires periodic Quality Control Reviews (QC Reviews) that will identify for senior management areas of deficiency including, for example, errors and omissions, unacceptable patterns or trends, as well as fraud and intentional violations of statutes, regulations, handbooks, guidebooks, mortgagee letters, notices, FAQs, etc.
- I. The QC Review:
1. Is sufficient in scope to enable the MAP Lender to evaluate the accuracy, validity and completeness of its MAP operation.
 2. Provides for independent evaluation of the information gathered or developed by the MAP Lender for use in the MAP origination, underwriting and construction loan administration decision processes.
 3. Documents whenever deficiencies in processing, underwriting or construction loan administration are found.
- J. Procedures exist for expanding the scope of a QC Review where instances of alleged fraudulent activities or patterns of deficiencies are identified. Other entities or individuals may need to be made part of any ongoing investigation of suspected fraudulent misdeeds to protect their interests as well.
- K. The QC Reviewing official(s), defined in Section III.F. above, will:
1. Document all findings - positive and negative in writing; and

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2. Present each project's QC Review at the next designated senior management committee meeting.

L. Senior management committee meeting.

1. The meeting must be scheduled to meet on a quarterly basis to hear the findings and recommendations resulting from the QC Reviews or more frequently if serious quality control issues are present.
2. Committee members must receive written notification of deficiencies cited as a result a QC Review before the meeting.
3. At the meeting, the committee will carefully review and analyze the results of a QC Review and may take corrective actions as necessary, in response to the QC Review.
 - a. Prompt initiation of corrective actions to address all deficiencies, including procedural problems, as identified;
 - b. Formal documentation of the corrective actions taken by citing each deficiency, identifying the cause of the deficiency, and providing management's response or actions taken; and
 - c. Affected contractor(s), employees and departments will be notified in writing of such findings, and corrective actions taken to assure senior management that repetitive or recurring actions will not reoccur.
 - d. Prompt distribution to all MAP loan origination, underwriting and construction loan administration personnel including contractor(s) of the corrective instructions for the identified deficiencies.
 - e. Training for the prevention of such activities will be implemented promptly; and
 - f. All remedial actions will be re-reviewed for compliance at the next regularly scheduled senior management committee meeting.

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M. The MAP Lender reports to:

1. LQMD, in Washington D.C., and provides the results of its QC Reviews and the corresponding corrective action plans; provides assurance that the information being reported is accurate; all required information is being reported; and the information is reported promptly.
2. Office of Inspector General, ("OIG") at the nearest HUD field office. The MAP Lender shall promptly notify the OIG of any violation of law or regulation, false statements or program abuses by the MAP Lender, its employees, its contractors or any other party to the transaction.

N. The MAP Lender will retain any QC Review and corresponding corrective action plan for a period of five years.

O. The MAP Lender will periodically review and update the QC Plan.

V. SPECIFIC REQUIREMENTS OF A QUALITY CONTROL PLAN.

A. For the MAP underwriting function.

1. The QC Plan must address how quality control is integrated into the MAP Lender's production process. E.g., before they send the AE&C analyst and appraiser out to do reports, do they have a pre-performance meeting, who attends, what do they discuss, is there a record of it, do they have a follow-up meeting when done, how do they know that something from the meetings requires action? If they do or don't have a pre-performance meeting and a follow-up meeting, how do they quality control the report they get before it is incorporated into the underwriting?
2. MAP Lenders are expected to exercise prudence and due diligence in determining whether the mortgagor is an acceptable credit risk, with a reasonable ability to make payments on the loan obligation. All documentation supporting the determination of creditworthiness has been retained in the loan file.
3. The general contractor, if applicable is an acceptable credit risk, with a reasonable ability

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to make payments on the loan obligation. All documentation supporting the determination of creditworthiness has been retained in the loan file.

4. The property's estimated value, market need, earning capacity, operating expenses, and warranted cost of the property are sufficient are sufficient for a long-term HUD insured mortgage. All documentation supporting the determination has been retained in the loan file.
5. The new construction/substantial rehabilitation project's design meets all applicable design standards. All documentation supporting the determination has been retained in the loan file.
6. The project's construction/rehabilitation/repair costs are reasonable. All documentation supporting the determination has been retained in the loan file.
7. The MAP Lender cannot establish minimum loan amounts, "floors," below which they will not lend.

Note: This is a violation of Section 535 of the National Housing Act.

8. The MAP Lender must be in compliance with Section 2.5 of the MAP Guide dealing with prohibited identity-of-interest relationships.
9. The MAP Lender originators:
 - a. Cannot:
 - 1) Perform the role of underwriter for projects they originate. ***Small MAP Lenders with limited staff may request a waiver.***
 - 2) Hire contractors on behalf of the underwriter
 - b. Must certify annually to the MAP Lender about possible conflicts-of-interest with potential clients.
10. The HUD approved MAP underwriter is a full time employee of the MAP Lender.

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11. The MAP underwriter's compensation
 - a. Cannot be based on approval of cases, percentage of the loan or a commission.
 - b. Is charged to administrative overhead charged against the entire company and not charged against a specific branch.
 12. A MAP underwriter must visit every project/site as part of his/her due diligence during the underwriting phase of processing.
 13. The MAP Lender's technical staff and/or contractor(s) are knowledgeable of HUD's requirements.
 14. The MAP Lender's contractor(s) have current copies of the appropriate HUD issuances.
- B. For MAP construction loan administration function.
1. The MAP Lender shall perform construction loan administration in accordance with accepted practices of prudent lending institutions and HUD's requirements.
 2. The HUD approved MAP construction loan administrator(s) is a full time employee of the MAP Lender.
 3. The QC Plan must provide for a review of the construction loan administration function in order to:
 - a. Determine that construction loan administration records are promptly established after loan closing and that the servicing records contain the information necessary to properly service the loan.
 - b. Determine through a review of individual loan file that the amount of fees and charges imposed on the borrower do not exceed those permitted by HUD.
 - c. Determine that inquiries from borrowers concerning their individual loan accounts are promptly responded to.

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- d. Determine that an analysis is performed on all loans that default during construction loan administration to determine the cause of the default and confirm that the loans were underwritten properly.

VI. QUALITY CONTROL REVIEWS.

The following represents the parameters for review, sampling, testing and recording.

A. For Underwriting.

1. Perform a QC Review of ten percent of all MAP loans underwritten on a semi-annual basis.

Note: If a MAP Lender underwrites fewer than 10 loans annually, the sampling requirement may be done on an annual basis.

2. Perform a QC Review at least once a year:
 - a. Of a minimum of one MAP loan for each mortgage insurance program used.
 - b. Of each originator used.
 - c. Of each underwriter used.
 - d. Of each branch office that underwrites MAP insured loans.
3. QC Reviews look at the quality of work performed by the MAP originators, underwriters and technical staff and/or contractor(s).

For example a desk review of the project appraisal must be performed on all loans chosen for a QC Review. Ten percent (10%) of all appraisals reviewed must also receive a field review.

Field reviews must be performed by:

- o Qualifies senior staff not involved in origination or underwriting; or
- o Review appraisers employed on a contract basis.

Note: The review appraiser or appraisal firm working on the QC Reviews cannot be used in underwriting any MAP loan.

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B. For Construction Loan Administration.

1. Perform a quarterly QC review of a representative sample of loans that is sufficient in number to provide reasonable evidence that MAP construction loan servicing policies and requirements have been met.
2. Perform a QC Review at least once a year:
 - a. Of each branch office that performs construction loan administration services of MAP insured loans.
 - b. Of each construction loan administrator used.

C. For Problem Loans.

The originating MAP Lender must undertake a comprehensive review and reexamination of any MAP loan it underwrote that goes into default either during construction or within **three years** after final endorsement. The fact that the MAP Lender may no longer have the loan in its portfolio is of no concern.

D. For loans purchased/transferred from another MAP Lender.

While not required, we encourage MAP Lenders to perform basic due diligence QC Review on any loan purchased from another MAP Lender.

VII. QUALITY CONTROL REVIEW REQUIREMENTS FOR UNDERWRITING.

At a minimum, the following requirements must be met for QC Reviews of loans underwritten using the MAP procedures.

- A. All processing and underwriting must comply with the applicable provisions of the NHA, Title 24 of the Code of Federal Regulations, the MAP Guide, the MAP Forms Book and MAP FAQs.
- B. All identity-of-interest certifications were properly filed.
- C. Determine whether each loan file contains all required loan processing, underwriting and legal documents including supporting reports and that all said documents were provided to HUD.

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- D. Any change made by an underwriter to a technical report's finding, conclusions and/or recommendations must be documented fully and supported by data.
- E. Credit reports on businesses and individuals.
 - 1. Determine whether the loan file contains business and individual credit report(s) on the appropriate principals, sponsor, mortgagor, and general contractor, if applicable.
 - 2. Determine if more than one credit report was ordered on the same principal/company; and if so, whether all credit reports were submitted with the loan package to HUD-FHA.
 - 3. Determine whether any outstanding judgments shown on the credit report(s) were accompanied by an explanation and supporting documentation.
Explanations are not acceptable where there is a delinquency or judgment involving debt to the Federal Government.
 - 4. Order a new credit report(s) from a different credit source and compared to the original for discrepancies on at least 10% of all loans subject to QC Review, on cases in which the in file credit report reveals discrepancies, and in cases of early default.
- F. Determine whether verifications of deposit and trade references were sent, received and considered in the project underwriting.
- G. Determine whether all conflicting information or discrepancies were reconciled and properly documented in writing.
- H. Determine that the loan file contains a financial statement(s) on the key principals, sponsor, mortgagor, and general contractor, if applicable.
- I. Determine that the financial statements were analyzed following generally accepted business practices to determine financial capacity.
- J. Assure that Section 223(f) post-disbursement inspections are conducted to determine that improvements were completed.

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- K. Determine if the Sponsor and/or General Contractor had a sufficient level of experience for the type and/or size of project that was approved.
- L. Determine if all negative information about the project and individuals or entities involved in the transaction was disclosed to HUD in writing.
- M. Determine whether the underwriter visited the subject project during the underwriting of the transaction.
- N. Determine if the underwriter performed due diligence quality control over the work of the contractors used in underwriting the project.
- O. Determine if there was a violation of the Department's "anti-kickback" requirements. Specifically, mortgagees are paying non-employees (e.g. real estate brokers, mortgage brokers) to assist in the preparation of the HUD/FHA application.
- P. Determine if staff allowed third parties to represent the MAP Lender in meeting(s) with the Hub/Program Center to discuss specific MAP projects.
- Q. Determine if excess and unallowable fees are being charged to mortgagors. Examples include charging discount points not disclosed on the Mortgagee's Certificate, Form HUD 2434, or firm commitment, charging larger fees than permitted by HUD/FHA and charging excess interim interest.
- R. Determine the accuracy and completeness of underwriting conclusions and MAP Lender documentation.

VIII. QUALITY CONTROL REVIEW REQUIREMENTS FOR CONSTRUCTION LOAN ADMINISTRATION.

The QC Review of construction loan administration must, at a minimum, meet the following requirements.

- A. Analyze loans for general compliance with HUD-FHA construction loan administration requirements found in the MAP Guide and the MAP Forms Book.
- B. Analyze escrow administration to assure that the escrows are properly funded and that the funds are only used for their intended purposes.

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- C. Analyze procedures for collection and recordation of payment receipts; escrow bills; disbursements from escrow; and claim submissions.
- D. Analyze procedures that were use for handling letters-of credit.
- E. Analyze procedures that were use for handling the investment of construction loan funds including escrows.
- F. Analyze procedures that were use for handling physical inspections for multifamily projects.
- G. Analyze the procedures for processing construction loan advances, change orders and notification of surety, cost certifications, and post endorsement escrows.
- H. Analyze delinquent loans and loans in foreclosure to determine compliance with HUD-FHA fiscal requirements and procedures such as timely assignments and extension requests, property preservation requirements and inspections.
- I. Review claim submissions on projects that have not reached final endorsement to assure that all efforts have been exhausted to "work-out" the loan and that all claims are properly documented, supported, and filed in accordance with HUD-FHA requirements.

IX. USE OF OUTSIDE FIRMS TO PERFORM QUALITY CONTROL REVIEWS.

- A. MAP Lenders may use qualified outside independent firms to assist in the performance of the QC Reviews.
- B. The outside source must use the MAP Lender's QC Plan.
- C. Services provided by an outside firm must comply with the Department's quality control requirements, and must provide written reports to the MAP Lender's senior management. The MAP Lender will be responsible for ensuring these requirements are met.
- D. The firm working on the QC Reviews cannot be used in underwriting MAP loans.

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X. EVENTS LEADING TO CHANGE IN MAP PARTICIPATION STATUS.

- A. To maintain its MAP eligibility, the Lender must comply with its QC Plan and the underwriting, monitoring and servicing requirements of MAP on a continuous basis.
- B. Failure to comply with these requirements may result in revocation of MAP privileges and/or other administrative sanctions.